Has Globalization Gone Too Far?
Dani Rodrik

Dani Rodrik has written a timely book which will be of interest to many Christian economists. The increasing integration of countries economically is highly controversial, theoretically and politically. Positions for and against globalization tend to be extremely polarized. Economists' attitudes and rhetoric sometimes contribute to an unnecessary strengthening of this polarization. Through his review of the issues, empirical assessment, and policy ideas, Rodrik personally models how economists might adopt a more constructive approach.

While not written from any particular religious perspective, this book ties into recent ACE discussions about how Christian economists ought to act if they wish to be successful "physicians" to the community, as recommended by Judith Dean (1997). The book is also fruitful in encouraging further research and teaching on globalization and its ethical implications.

Rodrik's book has five chapters. Chapter 1 gives a brief overview of the book as a whole. Rodrik believes strongly in the positive net benefits of trade liberalization. But his thesis is that we must mitigate trade's significant negative effects on (some) laborers and labor standards.

His discussion starts with the idea that the developed countries made a postwar social bargain between labor, business, and the government. To alleviate labor concerns about trade liberalization, governments agreed to provide safety net programs and other protections in exchange for a liberalization consensus. Business agreed to help finance these programs in order to keep the social peace, capital being immobile internationally.

However, globalization has accelerated in recent decades, with businesses increasingly willing to shift production to more-profitable locations around the world. Globalization has eroded the bargaining power of immobile labor, and is widely believed to have decreased jobs and wages for less-skilled workers in developed countries. Rodrik fears that economic integration will be accompanied by social disintegration and a possible protectionist backlash, unless there are improvements in both economic theory and economic policy-making.

Chapter 2 elaborates the debate about trade's impact on labor. How much is trade to blame for the drop in low-skilled wages in the US and the

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rise of unemployment in the European Union? The factor-proportions theory predicts trade with labor-abundant developing countries could have these effects. But standard empirical tests generally find that trade should be given little weight as a causal factor. Instead, the labor outcomes are attributed to skill-biased technological change, such as computerization, assumed to be independent of trade trends.

Rodrik critiques this conventional wisdom in several ways. He reviews a lesser-known theory that trade and foreign investment, even between developed countries, can increase the elasticity of labor demand and hurt labor welfare. Furthermore, trade and technology are interdependent. Multinational corporations are a conduit for technology internationally. Pressures to keep traded goods competitive can also spread technology and labor norms to suppliers in the nontraded sectors.

Chapters 3 and 4 examine in more detail how competitiveness concerns erode labor norms. Mobile businesses ask for tax incentives and fewer regulations, so governments face pressure to relax labor standards and cut safety net programs. This causes protests such as French strikes in response to Maastricht Treaty austerity. It also creates pressures to negotiate worldwide labor norms or to have unilateral trade sanctions against lower-norm countries.

Chapter 5 gives policy suggestions. Economists should take national preferences about labor norms more seriously, and acknowledge trade's threats to norms. At the same time, Rodrik is against unilateral barriers to protect or spread norms. He recommends that the World Trade Organization find some middle way between its too-restrictive "escape clauses," and the unilateral anti-dumping measures which are so commonly abused.

Governments must develop new (global?) sources of tax revenue and more efficient safety net programs. Labor needs to accept that globalization is in many ways irreversible and not always harmful, and shift its lobbying towards reformed international rules instead of pure protectionism.

The strengths of this book include the interesting nature of its subject matter, the author's stimulating critiques of all sides of the debate, and his readable writing style. The effort to keep the book inexpensive and short, only 80-some pages in the main text, is attractive as well. And Rodrik does a great service to the economics profession by assessing how economists interact with the broader community and suggesting some alternatives.

To recast this latter discussion in terms of Dean's physician analogy, an economist/physician needs to diagnose problems correctly, and also have a good "bedside manner" so there is effective communication with the patient. Rodrik calls for better diagnosis by noting that economists do not yet have a full understanding of globalization and its effects, as exemplified by the trade vs. technology debate.

Economists also need to improve their bedside manner. Their communication habits alienate patients and tempt them to turn to alternative practitioners recommending blanket protectionism as a panacea. Rodrik believes economists must vigorously expose protectionist fallacies, and does this himself in a critique of Greider (1997). But economists must also fight tendencies for their own rhetoric to be too technical, one-sided, and aggressive and ridiculing.

One example is how economists commonly assume any critique of free trade is simply "disguised protectionism," rather than a genuine moral concern about how globalization may hurt vulnerable groups in society. In contrast, Rodrik notes evidence of truly selfless opponents in certain trade debates, and also gives farsighted critiques himself. Rather than imputing motives without any attempt at dialogue or empirical testing, economists
might try the Judeo-Christian virtues of humility, discernment, wisdom, and reconciliation.

While highly recommended, Rodrik’s book has weaknesses. Rodrik’s aim was to write a book helpful for professional economists as well as interested laypeople or students. While succeeding to a great extent, he leaves both audiences hungry for more, sometimes too much so. From a lay perspective, many of his points are extremely brief and non-intuitive, and there are some difficult graphs. Students like this book, but the professor will need to supplement it with other materials.

From an economist’s viewpoint, some of Rodrik’s conclusions need more supporting evidence. For example, he notes that most trade takes place between developed countries (pp. 14, 22–23). He then implies that shifts in comparative advantage help explain US labor outcomes, as contrasted to pure technological explanations. While plausible (e.g. Japanese automobiles), there is little documentation of these shifts or their magnitude. Can we detail the effect of bilateral trade and investment patterns on US labor markets? Can we detail it dynamically? (For an interesting paper on Canadian labor markets, see Anderson and Smith, 1998.)

Another caution to readers is the book’s relatively narrow focus on trade and labor issues despite its more comprehensive title. While mentioning globalization’s effect on other norms such as environmental ones, he omits an analysis of the bold cultural protection laws of France and Canada. And more surprisingly, the book neglects any detailed discussion of how international financial trends affect labor conditions and social norms. This has been a hot topic throughout the 1990s, as evidenced by the European and Mexican crises prior to the current Asian troubles. The Maastricht Treaty by its nature is a monetary treaty. How to respond is an important policy-making priority.

Lastly, some of Rodrik’s ethical choices are controversial. Most obvious is the high value he places on national sovereignty, respecting national norms and not trying to impose norms on other countries. His heart is in the right place, since his aim is to protect high labor standards while still giving trade opportunities to less developed countries. A Biblical argument can be made that some ethical responsibilities and norms do stop at one’s borders. But are there any universal labor norms which we as Christians ought to promote, even if it puts pressure on national sovereignty? Where do we draw the line? A tie-in to the debate about immigrant rights and national sovereignty could be an interesting research project.

Secondly, many Christians believe in having a “preferential option for the poor” in assessing whether trade outcomes are fair. But Rodrik relies more on Nozick’s procedural fairness rules, than a Rawlsian approach that questions the initial distribution and puts greater emphasis on the impact on the poor.

Thirdly, his policy recommendations would have been strengthened by a subsection on business’ responsibilities. He makes passing comments (p. 70) that “farsighted companies will tend to their own communities as they globalize.” He brilliantly uses Hirschman’s “exit” and “voice” concepts to explain why they are tempted to ignore this advice, as capital mobility makes corporate exit easier and stifles labor’s voice. But his recommendations for new rules of the game, which seem to assume an adversarial and unrepentant business mentality, might have been supplemented with a more in-depth appeal to the business conscience.

One last issue is who should provide the safety net. Should it be the national government or extended families, religious groups, charities, and/or local communities (p. 67)? While focused on national governments, Rodrik raises the question of the degree to which globalization also erodes the capabilities of the latter groups. This would certainly be another worthwhile topic of research for
interested Christian economists. In summary, Rodrik’s book captures one’s moral imagination, and even its weaknesses are useful in motivating further research, better teaching, and thus better service to the community.

REFERENCES


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Economics as a Moral Science: The Political Economy of Adam Smith

Jeffrey T. Young

Adam Smith’s attempt to understand the way the world works was deeply embedded in the Protestant Natural Law tradition which had many ties to the Greek and Scholastic writings. For Smith, morals and economics interpenetrate each other and combine to form a general science of human nature. Unfortunately many who read only the Wealth of Nations (WN) never grasp the connections between morals and economics that Smith spent his life exploring.

Jeffrey Young, A. Barton Hepburn Professor of Economics at St. Lawrence University and member of the ACE, has as his goal to correct that problem by looking at all of Smith’s writings as an integrated project. Beginning with material from Smith’s writings on astronomy Young illustrates how scientific analysis begins with wonder and surprise that begs for connecting principles. Philosophy is the search for these principles that are ultimately drawn from the imagination and experience. Following Hume, Smith weighed experience and the human passions more heavily.